

BUSINESS CONDITIONS & FORECASTS

A M A News Letter

AMERICAN MANAGEMENT ASSOCIATION, 330 WEST 42nd ST., NEW YORK, N. Y. . . JANUARY 27, 1939

The President's Scratch-Pad

¶ In the AMA Conference calendar, February has come to be known as "personnel" month, since it is marked by the Association's Mid-Winter Personnel and Industrial Relations Conference. The Conference brings together industrial relations executives from virtually every part of the country and from all types of business—steel, textiles, foods, automobiles, dry goods—in fact, there is hardly an important exception. Last year the attendance numbered more than 1200.

¶ Like preceding meetings, this Conference will unquestionably have an important effect upon industrial relations during the ensuing year, despite the fact no resolutions will be passed and no "platform of principles" will be enunciated.

¶ The purpose of the Conference will be to bring many minds together for an exchange of thoughts on common problems. The background for this exchange will be the conference program, the various speakers and discussers, and a general atmosphere of intelligent inquiry as the best industrial relations minds in the country gather for discussion of industry's greatest problem.

¶ Speaking of exchanging thoughts, it is well known that some of the most fruitful discussions at conferences do not always take place in the meeting hall but are often held between and after program sessions in coffee shops and hotel rooms. I have sat in on many such "confabs" myself and have been impressed by the absolute freedom with which the various members of the group speak. The AMA encourages gatherings of this kind, and we hope there will be more of them at the coming meetings. We also hope that there will be staff meetings of the various companies held after each day's sessions to discuss: *How can we apply what we heard today to our own organization?* The AMA staff will be glad to help you arrange such a company meeting. Drop a card about it to AMA Headquarters.

Alvin E. Dodd

MODERATE DECLINE IN BUSINESS NOT EXPECTED TO BE PROLONGED

Various Agencies Believe Reaction to Upsurge of Last 6 Months Will Be Brief

Most sensitive indexes of business activity are indicating a decline whose proportions are at present moderate and which does not promise to run beyond early or middle spring. Various referred to as a "lull" and a "pause," the decline is evidencing itself very perceptibly in lighter industrial schedules in many industries. Such a leveling of activity was not unexpected and follows one of the most intense upward drives of industrial production that has ever been recorded in a six months' period. It is pointed out that while industrial production at present is about 21 per cent below normal, it was 42 per cent below normal in June, 1938.

WAGNER ACT CHANGES

As the time draws nigh for a test of strength of the Wagner Act, speculation as to how radically the Act will be revised grows more intense. The general conservative opinion is that any revisions that are made will be slight and not fundamental enough to cause radical changes in the setup of company industrial relations departments. The pressure to change the Act grows stronger daily; and expressions from industrial relations men and other business men have made quite clear in what particulars employers wish to see the Act revised.

FINANCE SESSIONS

When company finance officers gathered this week in New York at the Conference of AMA's Division of Finance and Accounts, they found themselves almost immediately in a discussion of independent audits. The topic was the first listed on a detailed program devoted to current financial practices, and was discussed by Jules I. Bogen, brilliant editor of the New York Journal of Commerce, who made special reference to the McKesson & Robbins case.

As this issue of the NEWS LETTER went to press, indications were that the conference was one of the most widely attended meetings of the Finance Division that had been held in some time. The sessions were headed and planned by F. B. Flahive, Comptroller, Columbia Gas & Electric Corporation, who is Vice-President in Charge of AMA's Division of Finance and Accounts.

There are many striking exceptions to the general trend: electric power production, for example, is running greatly over the corresponding period of 1929; the building and construction industry, according to many advices, has made important gains and will be in flourishing condition when milder weather comes; retail trade of December was equal to that of 1937, and the prospects for this line of activity are considered good, despite a rather severe setback during recent weeks.

The darker side of the story is in such indicators as business failures (which have increased sharply), declines in car-loadings, lowered stock market prices, declining commodity prices (partially reflecting cautious and hand-to-mouth buying policies), and a decidedly poor agricultural situation.

Most observers opine that the present trend is a definitely intermediate and side-wise movement. Basically industry is believed to have much underlying strength, and the foundation does not exist for a prolonged recession. The inventory situation is considered to be economic and normal. Also, many natural and artificial stimulants will be increasingly felt as the winter wanes.

In Europe the chronic threat of war has long cast a pall over business activity; now many advices indicate that strained international relations are taking a heavy toll in the economic affairs of each country. It is reported that in England business has turned "sour," and elsewhere commitments are dominated by international political uncertainties.



BUSINESS CONDITIONS & FORECASTS

VOL. 12, No. 1 — PREPARED MONTHLY BY THE AMERICAN MANAGEMENT ASSOCIATION

	Alexander Hamilton Institute	Babson Statistical Organization	Brookmire, Inc.	Bu
General Outlook	Business expenses continue to exceed income, and there is no indication of an early return to profitable operations; 984 business failures occurred during November, compared with 842 in the same month of the previous year (January 21).	General business is gathering strength; slight downward readjustments of certain industrial schedules during the year-end period appear to have run their course; current indications support our forecast of a good year (January 16).	Underlying recovery trends continue dominant in industry, and the political situation reflects an increasing intent to help business; while some extension of uncertain movements is not precluded, it is logical to expect the next important move to be upward (January 21).	The Business Activity has dropped this drop should be an intermediate lower the index 95 and 100 in trend should the
Money and Credit	Total loans of Federal Reserve member banks during December were 9% under December, 1937; however, total deposits had increased 6.9% over the previous year, and excess reserves were 148.2% higher (January 21).	Since the first of the year excess reserves of the country's banks have reached upward toward new peaks; before the current movement has run its course, the reserve figure may well reach 4 billions (January 16).	Although substantial expansion is in prospect for this year, it is not likely to attain a speed which will increase the demand for money sufficiently to raise money rates materially and bring pressure on prices of high-grade bonds (January 14).	Excess reserve banks have this compares with ago; commercial reporting members entered a decline
Security Markets	Stocks pushed ahead in December in the face of some slackening of business activity; the present reaction is entirely normal, if for no other reason than a belated adjustment to the slower tempo of business recovery in the closing month of the year (January 21).	Stock prices have backed and filled without making headway up or down since mid-fall; this action has caused some nervousness; we wish to emphasize that the major trend of equity prices is, in our opinion, upward (January 16).	In the stock market, irregularity has continued, and some more definite impetus seems awaited; however, the basic trend points upward; in the bond market, the prices of some senior securities have moved to new highs (January 21).	There is now market a growth much the same as business; the result dribbling liquid who would raise (January 21).
Production	Basic conditions indicate an annual normal demand for steel in 1939 equal to 40.1% of the industry's capacity; since the actual rate of output has risen to 52.7% of capacity, continued expansion will probably meet with considerable resistance (January 21).	Electric power output is reaching new all-time highs; consumption of electricity is now running some 30% over the corresponding period of 1929; in most industrial lines inventories are relatively low (January 9).	Leading executives connected with the automobile industry have estimated a gain in 1939 production of from 30% to 50% over 1938; 3,600,000 cars and trucks are likely to be produced this year (January 7).	January automobile better comparison usual; the utilization improvement of a put in the first to the first half
Distribution	The index of department store sales in December stood at 89.0, unchanged from a year ago; in the week ended January 7, the purchasing power index dropped to 75.6 from 76.5 in the preceding week (January 21).	Policies of sales departments are being affected by the basic changes now sweeping over general business; the outlook is that the farming regions are likely to become relatively quieter; the manufacturing centers are likely to become more active (January 16).	Reduced inventories and a substantial deferred demand point to continued sales expansion; retail auto sales in 1939 will be boosted by a million or more cars over last year's total (January 7).	The Federal Reserve department ago, despite the 3% lower; if the income continues improve its short
Building	The value of private building contracts in December was 59.7% higher than in December, 1937; public works contracts showed an improvement of 144.6% (January 21).	In building there is a tremendous total of PWA projects yet to be included in the contract records; the building situation is being greatly stimulated by Federal projects, by low rates for loans, and by plentiful funds available on generous terms (January 9).	Construction is apparently launched upon one of its longer-term upward cycles of activity, which may well continue until a building boom develops; the residential division has taken the lead, but other divisions should later experience large gains (January 14).	Probably the whole business construction; though ago that construction down 10% from the Eastern same percentage
Agriculture	Farm cash income in November was \$708,000,000, which compares with \$716,000,000 for November, 1937; in the week ended January 7, the price index of farm products declined from the level of the previous week (January 21).	A survey of general economic conditions shows the farm situation to be a major question mark; indications are that unless price tendencies and weather conditions take a turn for the better, farm grief is ahead (January 2).	Though important farm prices will lag in 1939 under the weight of large surpluses, other farm prices—including those of livestock, fruits and vegetables—will show the customary response to improved demand (January 21).	The price of slowly, but when acted; wheat is lower than a year
Commodity Prices	The Bureau of Labor Statistics' Commodity Price Index averaged 77.5 in November, compared with 83.3 in November, 1937 (January 21).	A checkup of wholesale commodity prices at the turn of the New Year showed the Department of Labor Index of 813 items about 5% below the previous year; raw materials were down 6% from last year, semi-finished goods 3%, and finished products 5% (January 16).	Commodity prices for 1939 are likely to show a healthy rise analogous to precedent; potent inflationary influences are visible in the background (January 21).	Commodity market new feature price for cotton; markets were maintained a 21).
Labor and Wages	The number of persons employed in the United States increased from 39,197,000 in October to 39,402,000 in November; the number unemployed in November was more than 1,500,000 below the high of 13,955,000 in July (January 14).	December wage increases numbered 319, occurring in 17 industries; only 73 strikes were recorded for the month, compared with 94 in December, 1937; however, industrial disputes may increase as much as 30% during the coming year (January 16).	During 1939, labor will probably be relatively reasonable in its demands; wage rates will be high, but efficient machinery will reduce unit costs (January 7).	Several thousand of the United Workers of America organization are expected to be insurance-compar 21).
Foreign Trade and Conditions	The outlook for Europe is dark; despite the various international pacts concluded, the political situation is as confused as ever; the Italian demands on France are a new source of difficulties which may lead to another European crisis (January 7).	Among the various handicaps facing business during 1939 are foreign uncertainties and the low levels of export trade; the fight for South America will continue, with Fascism still a major threat (January 9).	War or peace is a question loaded with unpredictables; yet the facts that many provocative incidents have resulted in no major conflict and that Anglo-French armament deters aggression, suggest that no general war will occur during 1939 (January 7).	In England, all year-end foreign bit as pessimistic those British ex 20% pickup in their tongues in

This digest covers the views of various authorities. It does not include any strictly confidential information or specific advices from the sources.

... JANUARY, 1939

CIATION — Reproduction Not Permitted

Business Week

The Business Week Index of Business Activity has dropped two points to 103.6; drop should be the first landmark in intermediate movement which may bring the index to a bottom of between 100 and 100 in February or March; the index should then be upward (January 21).

Excess reserves of Federal Reserve member banks have risen to \$3,440,000,000; compares with \$1,386,000,000 a year ago; commercial and agricultural loans of member banks have again registered a decline (January 21).

There is now discernible in the stock market a growing uncertainty which has the same effect on traders as bearishness; the result of this uneasiness is a troubling liquidation of securities by those who would rather be on the sidelines (January 21).

January automobile production makes a better comparison with December than last year; the utility industry foresees an improvement of around 6% in power output in the first half of 1939 as compared with the first half of 1938 (January 21).

The Federal Reserve Board finds December department store sales as high as a year ago, despite the fact that prices were about 10% lower; if the upward trend in national income continues, retail trade will further improve its showing (January 21).

Probably the most favorable feature of the whole business outlook lies in construction; though analysts predicted a year ago that construction in 1938 would be down 10% from 1937, final figures covering the Eastern states show a gain of the same percentage (January 21).

The price of cotton continues to rise slowly, but wheat prices have again risen; wheat is now 71¢ a bushel, 34¢ more than a year ago (January 21).

Commodity markets this week presented new features aside from the lowest price for cottonseed oil since 1937; metal markets were barely steady, and rubber maintained a fairly firm tone (January 21).

Several thousand white-collar members of the United Office and Professional Workers of America (CIO) have initiated an organization drive; two to three years are expected to be devoted to financial and insurance-company unionization (January 21).

In England, all business has turned sour; foreign trade figures are every bit as pessimistic as had been predicted; these British executives who forecast a 10% pickup in activity during 1939 have air tongues in their cheeks (January 21).

Dun's Review

Despite an apparently more-than-seasonal slackening in industrial activity during late December and early January, general business recorded slight advances over a year ago, and sentiment was, for the most part, cautiously optimistic (February).

Bank clearings, 22 U. S. cities, November, \$21,637,043,000, 9.9% below October, 0.7% below a year ago; Adjusted Insolvency Index (Failures), November, 51.8, compared with 59.4 in October and 51.2 a year ago (February).

The volume of security transactions in December was slightly below November's level; stock prices advanced during December and the first week in January, then declined to the late December level (February).

Industrial production leveled off in December; steel output declined during the month from about 60% to 39% in the final week, then rose to over 50% in the first part of January; automobile assemblies during December exceeded 1937 by about 15% (February).

The United States Trade Barometer rose sharply to 89.0 in November from 78.5 in October; every region except one of the 29 showed a more than seasonal rise in trade activity (February).

December building permits (215 cities), \$89,582,203, 0.1% below November and 24.6% below a year ago; New York City permits were 0.5% above November and 70.2% below last December (February).

Commodity prices were relatively stable during December and early January; the Daily Commodity Price Index declined slightly during the middle of December, then rose again to a point beyond its former level in the last week of 1938 (February).

There was little change in payrolls and employment during December, except for seasonal increases in sales forces; average weekly earnings of factory workers in 25 industries (NICB) during November rose 18 cents above October (February).

Cleveland Trust Company

If business men had a high degree of confidence in the future, they would base their policies on long-term expectations; they would expand, taking present risks for future gains, if they believed they could keep a reasonable part of any gains they would make (January 16).

For many years before 1929, about 60% of firms made profits; since 1930 that proportion has been cut in two; if the prospects for profits could be restored to about their old proportions, we could produce a national income of 80 billions with easy promptness (January 16).

The volume of industrial production at the end of the year was only 21% below normal; in June, 1938, it was 42% below normal; this is perhaps the greatest advance that has ever been recorded in six consecutive months (January 16).

Inventories of industrial corporations appear to have been reduced about 26% in the past year, but they are still higher than they were in 1928, and nearly as great as those of 1929 (January 16).

One of the measures of expansion in construction, railroads, power plants, machinery and productive equipment is the output of heavy steel; for the past five years the output of heavy steel has been only about 34% of the total (January 16).

In the past 50 years there has been a reduction of about one-third in the number of hours making up the full-time week of American industrial workers; one may well wonder how far the declining trend will continue in its downward course (January 16).

National City Bank

The year 1938 has closed with some indications that the business upswing is leveling off but with few signs that any considerable decline in activity is to be expected (January).

Gold imports, together with Treasury disbursements for other purposes out of balances on hand in the Federal Reserve Banks, carried excess reserves of member banks to a new all-time high on December 14 (January).

Prices of United States Government bonds, after an easier tendency in November, developed renewed strength in December, when most of the list went into new high ground; high-grade corporate and municipal bonds were likewise strong (January).

Undoubtedly the trend of steel production will be upward from the New Year's low, but whether the increase will be as marked as usual appears questionable; the outlook for tires, autos and textiles is generally favorable (January).

Dollar sales of department stores have run slightly ahead of last year, according to Federal Reserve reports; the increase in transactions and the volume of goods moved has been greater (January).

Building contract awards have reached the highest level, for this time of year, since 1929; in November the total was 52% above the same month of 1937, and in the first three weeks of December the increase was 61% (January).

The commodity markets have given no indications of over-speculation; on the contrary, the volume of trading has been small, and prices have had no great advance; retailers' and wholesalers' stocks range from normal to low (January).

Among the major uncertainties is the foreign situation; the nations continue to rest their security upon armament rather than a reconciliation of their conflicts; the question of where this may lead to is a source of anxiety everywhere (January).

Important Marketing Sessions Slated for April 12-13 in N. Y.

Harte and Kobak Planning New Type Of Meeting

AMA's Marketing Divisions, operating under the direction of Divisional Vice-Presidents Edgar Kobak, Vice-President of Lord & Thomas, and Thomas J. Harte, Vice-President and General Sales Manager, North American Cement Corporation, will hold their joint meeting in New York on April 12 and 13.

Members have been polled on the idea of having a Symposium in which such management officials as production executives, financial officers, and others would talk on: "What we think a sales department should know about production problems," "Points the sales department should know about taxes," and the like. Returns from this poll at present are 19-1 for the Symposium plan as against the more conventional type of meeting.

As at present contemplated, this Symposium would occupy one day of the two-day meeting. The other day would be the more usual type of AMA Marketing Conference, except that, in conformity with members' wishes as indicated by the poll, a half day will probably be given to industrial marketing, and a half day to consumer marketing problems.

This conference is still in its planning stages. Members are urged to send in suggestions for topics and speakers.

Packaging Exposition and Sessions To be Staged March 7-10

One of the most colorful industrial expositions of the year will be held on March 7-8-9-10 when the Ninth Annual Packaging Exposition is staged in New York City. On display will be hundreds of packages as well as samples of packaging materials, machinery, etc. Also to be seen will be the winning packages in the Wolf Awards classifications, in which the top package this year was the "Rainsuiter" carton designed by Martin Ullman.

Running concurrently with the exposition will be the sessions on the various technical phases of packaging. More than 50 authorities on these subjects will discuss package merchandising, package designing, the pure food, drug and cosmetic law, and many other related topics.

Planning For Marketing Discussions



EDGAR KOBAK



THOMAS J. HARTE

Industrial Relations Conference Attracts Large Group from All Industries

(Continued)

Mr. Chester said it was his belief that a 25 per cent increase in industrial efficiency was entirely possible and that the first step in achieving such an increase lay in widespread betterment in industrial relations. "It is only when we help the employees to improve themselves — economically and technically — that a real start is made," he said. "If you asked me what is management's responsibility in the matter, I'd answer: In the daily operation of our business, let's make certain that no one is ignored on those things about which he has a right to be consulted."

Discussion during the first day concerned problems under the wages and hours law and the Social Security Act. J. Douglas Brown of Princeton University, Chairman of the Advisory Council on Social Security, declared: "With contributory social insurance providing basic security to all wage earners at a uniform cost upon all employers, it is sound business as well as sound public policy for employing organizations to supplement the protection afforded by government social insurance."

Job rating, merit rating, regularization of employment, standards of executive performance were all considered on the second day of the conference. The principal study on job rating was presented by W. R. Coley, Factory Manager of Leeds and Northrup Company, who pointed out that in order to have a wage system that is fair to all concerned, it must be based on

an objective appraisal of the value of each job.

One of the most interesting sessions of the meeting, and one that had considerable significance for industrial relations men, was the discussion on industry-wide collective bargaining in which the chief participants were Almon E. Roth, President of the San Francisco Employers Council, and Ivan L. Willis, Assistant Industrial Relations Manager of the Standard Oil Company (New Jersey). Mr. Roth gave a vivid picture of extreme conditions in San Francisco. He described an industrial situation marked by excessive union militancy and advanced radicalism. His Council, he said, was formed to match employer strength with employee strength — "to fight heat with heat." Mr. Willis, basing his conclusions on first-hand experience in Sweden and England, doubted the wisdom of attempting to apply the collective bargaining systems of those countries to the United States. It was his belief that such an attempt would create a class consciousness here similar to that in England, "where every pub has three doors, one for the worker, one for the tradesman, and one for the upper cruster." "Instead of looking for a solution of our problems in the direction of trying still further to force labor into a position where it will be a class apart, we should be devoting our efforts to the solution of the problem in a manner consistent with our democratic ideals," Mr. Willis asserted.